The MORTGAGE BANKER

VOL. III—NO. 14 JULY 15, 1941

Another Rural Credit System Needed and Mortgage Insurance Will Provide It

Every MBA member will find this article a clear and timely discussion of this important plan.

By H. F. WILLIAMS

THERE is a rapidly growing interest in the prospect of applying insurance to the farm mortgage loan, the desirability of which was first brought to the attention of the public by the Farm Mortgage Committee of the Mortgage Bankers Association of America. This Committee has been studying farm mortgage credit intently for about two years, and several months ago came to the conclusion that mutual mortgage insurance possessed so many elements of strength that it should form the basis of a new farm mortgage credit system.

The idea, of course, is not new. The so-called guaranteed mortgage, which started about 25 years ago and met disaster in the Twenties, was a plan of mortgage insurance, but its failure was one largely of administration and not because the plan was unsound in principle. The next effort made to incorporate insurance into a system of mortgage lending was the National Housing Act of 1933, which set up the FHA, a city mortgage loan system which has since experienced phenomenal growth.

It would be just as well to pause here and acknowledge that the Mortgage Bankers Association of America did not believe that the National Housing Act was justified or needed, and considered it another encroachment of the government into business. It doubted very much that the system would prove workable. That it was in error has been freely admitted, and today mortgage men acknowledge unhesitatingly that the FHA has performed a most constructive and valuable service, and is a sound, scientific, and standardized system of insured city mortgage lending. It is from FHA, then, that the idea of such a system for farm loans presently originated; and it is due to the progress of FHA that such a rapidly growing interest is taking place in the prospect of applying mutual insurance to the farm mortgage loan.

FEW MEN have the background of experience in the farm mortgage business and consequently are so ably equipped to discuss the proposals for a new rural credit system based on mutual insurance as the author of this article, H. F. Williams of Minneapolis. For 18 years he conducted a large and successful farm loan business of his own and for several years was an official in the mortgage loan department of a large insurance company. He was a chief appraiser in The Federal Land Bank System, professor of agricultural economics in one of our state universities and economist with the U. S. Department of Agriculture. He was reared on a corn belt farm.

The FHA mortgage loan system not only introduced the insurance feature, but also several other salutory changes and improvements into city mortgage loan practice. For instance, it brought the long time loan to the home owner, eliminating recurrent financing; the privilege of borrowing the full amount of the credit possessed by the security, thus eliminating the need of supplemental financing, such as the second mortgage; more comprehensive, systematic, and scientific investigation of both the physical security offered and the credit risk involved; a payment plan of monthly installments covering all items required to keep the mortgage in good standing; and last, but not least, standardization and governmental regulation. As a result of these things, and especially because of the insurance feature, these mortgages possess a wide market, a prime essential of any good investment, and something not heretofore possessed by the city mortgage.

While the FHA insured mortgage has not yet been subjected to the test of a

severe depression such as may come after the present war, it should survive a severe strain, provided, of course, the premium paid into the insurance fund is adequate and provided further that the system continues to be administered in the businesslike manner it has up to this time—and there is no reason to believe that it will not be. Therefore, FHA insurance should be expected to give as good an account of itself as other forms of insurance. At any rate, the principle underlying mortgage insurance is fundamentally sound.

Insurance Is Everywhere

It is worth while to observe in passing that insurance in some form has been applied to almost every line of business. Its value and influence for good is widely recognized. It touches our lives at every turn from fire insurance on all kinds of property, accident and life insurance, to insurance even on the weather. It is a natural development for insurance to be applied to the mortgage loan to insure it against loss in the event of misfortune or failure. That is just what FHA does for loans of the home owner in cities and towns, and that is just what is now under consideration for loans on the farm and the farm home. Frankly, we must admit that FHA has shown the way.

For our purpose here, let us assume Congress has just created by proper legislation an insured farm mortgage loan system paralleling as closely as possible the FHA. Then let us endeavor to set down what it would accomplish. From the standpoint of the farmer, a system of mutual mortgage insurance would have many things to commend it. It would surely give him better access to a very large and very dependable source of mortgage credit at a low interest rate. FHA gave the home owner the lowest basic interest rate he has ever had, and the system applied to farm loans should accomplish the *same result for the farmer.* It would be a sound loan credit system capable of standing on its own feet. That is to say, it would be self-supporting, and would not require periodic grants from government to maintain it and carry it through times of depression, providing, as already stated, the insurance premium was adequate. Whether or not the insurance premium would be adequate from an actuarial standpoint could be determined only after years of experience. The history of insurance in its numerous forms shows that usually, when entering a new field, a premium more than adequate is collected at the outset, but as experience is gained and an insurance fund built up, the premium is reduced. Already a slight reduction has been made in the cost of insurance in FHA loans.

IT IS the conviction of the Farm Mortgage Committee of the Mortgage Bankers Association of America that mutual mortgage insurance should be applied to the farm loan, and if this should be done, it would contribute greatly to the stability of farm land values and, at the same time, provide a standardized system of farm lending so sorely needed by both institutional and private investors. MBA's Farm Mortgage Committee has had the benefit of the advice and cooperation of other interested groups. Mr. Williams is a member of MBA's committee which is headed by S. M. Waters and includes Frederick P. Champ and R. O. Deming, Jr.

It would be a cooperative plan because mutual mortgage insurance, like all insurance, is wholly cooperative, each participant paying into a fund out of which losses are paid. Indeed, mutual insurance is one of the earliest examples we have of business cooperation, and it is one of the most simple and readily understood. However, as in most forms of insurance, those cooperating would be relieved of the responsibility and the burden of management. This would be done by governmental regulation through an Administrator or Executive Board created and charged with that responsibility. Thus, the farmer would have a truly cooperative rural credit system that would be automatic in its operation, and not require the time, effort, skill and responsibility so necessary to the success of any cooperative enterprise where the cooperators do the managing such as farm cooperative buying or marketing associations.

While only institutions may invest in FHA loans, the plan as applied to farm loans should, and no doubt would, permit individuals who desire to invest in insured farm loans to do so. The main reason for this is that a substantial portion of the farm mortgage debt is held by local individuals. It is known that most of these individuals are either retired farmers or country town people interested either directly or indirectly in farm lands. The disaster to farm loans during the Thirties has made the farm loan somewhat unpopular with these people, and it will take the added safety the insured mortgage affords to restore their confidence in them—and their confidence is very important because local confidence in land values means stabilized values. This would give tenants a better opportunity to become farm owners, because they would find more ready financing. Surely there could be no objection to the individual owning an insured farm loan as an assignee providing he was required to sign a contract leaving the servicing of the loan with the experienced institution that originally made it.

A Farm Is a Business

In adapting the FHA plan to farm loans it would be necessary to recognize that the farm is not only a place of residence but a business. Therefore, it should embody a provision for forbearance in case of crop failure or other misfortune which may come to the borrower and over which he has no control. This objective could be accomplished by a provision in the law or by regulations under it, permitting a modification of the terms of the mortgage upon joint application of the borrower and lender whereby an extension of time for the payment of principal or other installments would be granted, or other changes made in the terms of the mortgage that would bring it again to a status of good standing. This would afford the farmer an opportunity to work out of his difficulty without the threat of foreclosure hanging over him. If this were done, there would be little or no need for mortgage moratoria, which have been of doubtful value.

Those not intimately familiar with the insured mortgage plan should keep in mind that it would not be a system of lending government funds, and only in a slight degree would the credit of the government be utilized. It would be a

system whereby institutional moneys and those of the individual would be made more readily available to the mortgage borrower, through existing institutions qualified to make the loans. It would be a private loan system as contrasted with the government Federal Land Bank System. However, the government would of necessity play an important part in such a system. In addition to the enabling legislation the government would of necessity administer and regulate the system. It is worthy of special notice that the system would not be a method of merely insuring farm mortgages of all kinds and descriptions. In order to qualify for insurance, the mortgage would have to be made in a certain manner, under certain specifications, and requirements, and could be negotiated only by highly qualified institutions.

6 Points to Consider

The experience of men long engaged in the farm loan business indicates that any rural mortgage credit system worthy of consideration should meet certain tests, the principal ones being:

1. It should fill a need not now supplied by existing institutions. There is an acute need for a vehicle that will be welcomed by those institutions and individuals who desire greater safety in the mortgage loan, and who desire to exercise some selection of the mortgage in which they invest in preference to buying mortgage bonds. There is a need on the part of the borrower for more ready access to the large reservoir of funds represented by these institutions and private investors.

2. It should be a cooperative system, since the farmer is so thoroughly convinced of the merits of cooperation that any system not in fact cooperative would not be readily and generally acceptable to him.

3. It should be a uniform and standardized system of making farm loans in order to secure wide acceptance and consequently a wide market, both of which are necessary if a low interest rate is to be secured.

4. It should extend to farmers everywhere equal opportunity to participate.

5. It should possess more features of safety to both the investor and the borrower than either the Federal Land Bank loan or the conventional loan of institutions and individuals offer.

6. It should have strict regulation under government supervision, but at the same time not require government subsidy. The farmer, as a business man, has never asked for more than a reasonable opportunity to succeed. He has never sought to live on government favor and subsidy. The wide-spread popularity among farmers of the McNary-Haugen bill, which twice passed Congress and suffered presidential veto, and which provided that the farm plan it embodied pay its own way, is evidence of the true attitude of the farmers of our country. It is pertinent to observe also that the McNary-Haugen bill in the equalization fee embodied both the insurance and cooperative principle.

A system of insured farm mortgage lending set up along the lines of the FHA should meet all of these tests. It is believed that it would meet every need of the farmer as to first mortgage credit, and should give the leader all he should reasonably expect in any investment on the basic security of the land.

The proposal for an entirely new farm mortgage credit system is no reflection upon the Federal Land Bank System which has contributed greatly to the support of agriculture, especially during the depression years. However, the Federal Land Bank System, now in its 25th year, was never intended to be the *sole source of mortgage loan credit in this country.* The act creating the Federal Land Banks also provided for the organization of Joint Stock Land Banks with private capital. Thus it was recognized that there was a place and a need for a system of private lending on farms in addition to the Federal Land Bank System. This need still exists, due partially of course to the failure of the Joint Stock Land Banks—which will be referred to later.

Another System Needed

This need of another and supplementary farm loan system is very evident if not acute. Up to the time the Federal Land Banks were established, the only sources of farm mortgage loans were the local individual investors, banks, other local institutions and the insurance companies. These sources, taken together, still constitute by far the most important source of farm loans, despite the fact that all were virtually compelled to cease lending during a period of several years when agriculture was in such distress and the Federal Land Banks increased their holdings so greatly. Yet there has been no standardized system of making farm loans available to these principal sources of farm mortgage credit.

None of them ever invested to any extent in the bonds of the Federal Land Banks or Joint Stock Land Banks. They desire to make the loans themselves, yet are reluctant to do so now because they have just passed through a period of disillusionment. They had for years considered *the farm loan the safest of investments* and to have it turn out so disastrously in the decade just passed was a rude shock. Their confidence has been impaired and rightly so. What they need is a system of farm lending all can use, one that will be safer than the previous one and one that will take the place of their own particular methods which so recently failed them. This is the acute need of this group of private investors

and the mutual mortgage insurance system devised by the FHA evidently is the answer to this problem. It would give them the privilege of making the mortgages themselves and it would have the necessary added safety because of the insurance feature.

Farmers Would Approve

There is every evidence to support the belief that a private farm mortgage loan system based on mutual insurance and under government regulation would prove popular with local investors, be they individuals or institutions, as well as with the insurance companies. It also should prove popular with the farmer if the system contained the provisions proposed. It should be able to supply a very considerable portion of the continuing need for new funds for farm mortgage financing and thus reduce the pressure upon the Federal Land Bank System and consequently the demands upon the Federal Treasury. It should be a welcome supplement to the Federal Land Bank System which it could not in the near future, if ever, supplant. It should successfully perform the function the Joint Stock Land Banks were intended to fulfill and in addition render a much more important service they were never equipped to give.

Many things in the history and experience of the Joint Stock Land Banks would be of value to this discussion but space enables us to refer to only one at this time. The Banks were governed by the same board that governed the Federal Land Banks but it did not prove a successful combination. It has been claimed that the Joint Stock Land Banks were not given a fair chance to succeed. There is not much doubt but that they never enjoyed the whole hearted sympathy of the board which was natural since members of the board were selected primarily for their ability along cooperative lines and their first duty was to the cooperative Federal Land Bank System, while the Joint Stock Land Banks were purely non-cooperative. Hence there was little incentive to the board to make the Joint Stock Land Banks successful. Be that as it may, many of them for various reasons failed during the agricultural depression and in 1933 Congress required they be liquidated. This strongly suggests that if Congress establishes a system of mutual mortgage insurance for farm loans its administration should be kept entirely separate and apart from existing Federal farm loan institutions and agencies to make certain that it would have a fair opportunity for a natural unimpeded development. Under such auspices it should make a sound and constructive contribution to the farm mortgage loan structure and consequently to the agriculture of our country.

We take pleasure in announcing that

Mr. LEWIS W. DOUGLAS

President, The Mutual Life Insurance Company of New York and Former Director of the Budget of the United States

will address the

28th Annual Convention of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

at the Roosevelt Hotel in New York

on Wednesday, October 1, 1941

on a subject to be announced later

★

We are particularly happy to be able to announce to the MBA membership that this distinguished American has accepted our invitation to appear as our first guest speaker at the New York Convention. There is not much that needs to be said here about him in an introductory way because Mr. Douglas' career is well known to mortgage bankers everywhere. What he will have to say in New York in October will represent, we think, some very important observations on the contemporary scene. Mr. Douglas is a native of the West—Arizona. He was elected to the State Legislature in 1923 and to Congress in 1926. In 1933 he resigned his seat to become Director of the Budget, a post he held until August of 1934. He later became Principal and Vice Chancellor of McGill University in Montreal, the first U. S. citizen to hold that position. He assumed his present position as president of The Mutual Life Insurance Company of New York last year.

FHA loans can be paid off at any time by paying a 1 per cent premium. Is it too high?

NO

says

ROSS V. DUNN

Vice President of the Home Mortgage Company of Nashville, Tennessee

WHY should there be a provision that an FHA can be paid off any time with a 1 per cent premium?

My understanding is that it is to assist in maintaining the solvency of the mutual mortgage insurance fund. The creators of FHA felt that if they permitted the prepayment of the loan without any premium, it would result in insuring the loan while it was a high ratio risk and thus hazardous; then, when it was reduced to a low ratio loan, they would be deprived of the premium revenue during the period when there was little hazard.

It is apparent that if FHA received this premium income only during the years when the loan was a high ratio and hazardous loan, a much larger premium than the present one-half of 1 per cent would be required to maintain the solvency of the mutual mortgage insurance fund.

Taking this view of the matter, it is my opinion that this premium of 1 per cent for the privilege of prepayment is *not too high*. After all, this is not a premium for the privilege of prepayment. Actually it is a two years' mortgage insurance premium which the FHA feels should be paid where the mortgage insurance is cancelled.

Of course, there should never be anything in a mortgage contract that would penalize thrift—and as the premium for the privilege of prepayment (or rather, as I said, this two years' mortgage insurance premium) seems to do just that at first glance. But FHA has not lost sight of this fact as the regulations permit partial prepayment without penalty if prepayments are not in excess of 15 per cent of the original face amount of the loan in any one year.

I can see an advantage to the lender if the regulations were changed to permit prepayment without a premium up to only 1 per cent of the original amount each year. Nevertheless, I do not believe this change would be wise. You would simply increase the penalty on thrift; and this, in my judgment, would be unsound. Of course, I fully appreciate the problems of the mortgagee, but I cannot get away from the fact that it is unwise to penalize a borrower too much for repaying his loan earlier than he contracted to do.

After all, every good FHA borrower takes advantage of the long term loan as a backlog of safety, but he always enters into his mortgage contract with the hope that he can retire his loan earlier and thus attain debt free home ownership long before the period of time permitted. Then, too, requiring him to pay the 1 per cent prepayment privilege premium, should he pay more than 1 per cent of his loan annually, would be of little benefit to the mortgagee, because if a borrower decides to pay off his loan for reasons he deems good, this 1 per cent premium will not prevent him from doing so except in rare instances.

Should the mortgagee also get a bonus if the loan is prepaid? That's another matter but again we should not penalize thrift.

It is costly for the mortgagee to put the loan on his books and when borrowers put lenders to this trouble and expense, planning to retire loans early in their life, certainly they should be expected to compensate them with a bonus for prepayment.

It follows that where a borrower enters into his mortgage contract in good faith intending to carry on for the life of the loan, but early in the life of the contract his position changes and through some good fortune he obtains a substantial sum of money and wishes to free his home of debt, then he ought not object to partially compensating the lender for the expense in placing the loan on the books. Otherwise the transaction will represent a loss to the lender.

Very important, too, is the fact that investors in FHA insured loans must pay a premium for them. When they are paid off in the first few years, it means a loss.

For these reasons I think the regulations should be amended to require the borrower to pay the lender a bonus if he retires his loan within the first five years. I think this premium should be 2 per cent for the first year with a graduated amount during the next four years.

Nearly one of every ten U. S. urban houses built last year were constructed under the USHA program, that agency says. Of 540,000 dwelling units built in non-farm areas, USHA began construction on 53,470. USHA money spent amounted to $194,700,000. USHA says it contributed more than 9 per cent of all money spent for residences in 1940.

How Are You Getting New Business These Days?

If you are concentrating on solicitors you are using the best method say these lenders

WHAT is the best method of getting new business these days—and whatever it is, are you using it? You may or may not be clear in your own mind just what the best method is but if you attended the MBA Clinics earlier this year and have been reading *The Mortgage Banker* in recent months you have no doubt come to the conclusion that there certainly isn't any full agreement as to just what is the one best method.

At any rate, the views expressed in this article agree pretty well—and on the idea that the best method to get the business in these times is by making the best use of solicitors. The best sources, say these lenders, are builders, contractors and architects.

The best clue on how to do anything is get the experience of someone who has done the same thing. These are personal experiences of men who are after new business, the method they employ to get it and how successful they have been.

Albert Mager, president, Mager Mortgage Company of Oklahoma City, prefers contractors and builders as the best sources of new business. He says that:

"We tried building permits and Dodge reports as a source of information for new business. It wasn't very satisfactory and we discontinued it. We use newspaper advertising. It is important to keep the name of your institution before the public. It is a good method for institutional advertising. We tried direct mail advertising. It wasn't very successful and we discontinued it.

"We find contractors a splendid source of business, especially for FHA's. We work with them closely. We believe it is good business for the mortgage banker to be a factor in the real estate board. We have made many loans through realtors.

"The mortgage business, like most other businesses, has undergone marked changes. As a result we have had to change our methods of producing business. The old way of advertising—"money to loan"—will *not* get the business today. We find direct solicitation by solicitors who *know the business* is the best method of producing business.

How to Pay Solicitors

"Our solicitors who devote all their time to producing business are on a commission basis. We give them a drawing account, and they get a check every two weeks. This carries them through lean months and they don't have to worry about the rent, groceries and gas. They are free to devote all their time to producing. In Oklahoma City and Tulsa we have been able to secure a 1 per cent commission plus a closing fee on all FHA loans and up until a year ago, 3 per cent on our conventional loans.

"At the present time we are securing 2 per cent on the conventional loans. We allow our solicitors 1 per cent commission on FHA and conventional loans. This is slightly more than some of our competitors pay, but it has always been our policy to pay those associated with us all we can afford to pay rather than pay as little as we can get by with. We find that by doing so our people are happier, more loyal and efficient. We let our solicitors determine the type of business they wish to solicit. One of them prefers FHA loans and devotes practically all his time to contacting builders and contractors. And he has been very successful in producing FHA's.

"Another solicitor prefers conventional loans. He devotes practically all his time to refinancing of building and loans and other loans that carry a higher rate on which we can show the borrower a substantial savings. He picks the districts that have been developed during the last ten years, and where the properties are of the type that insurance companies willingly lend on. We have cards made up of these additions, showing the owner, the company holding the present loan, and the time it was made. He then drives by the property and if the amount seems in line for a life insurance loan, he contacts the home owner over the telephone or arranges an interview. He has been one of our most successful producers.

"We maintain a real estate brokerage and property management department and fire insurance business in each of our two offices. This business is a partnership and is kept entirely separate from our mortgage business. We find it is profitable and good business to offer the public a complete service—financing, sales, management, and fire insurance. We have found that our best methods of securing business are:

(1) Direct solicitation by well trained solicitors keeping in close contact with builders, contractors, and realtors; (2) Newspaper advertising; and (3) Billboard advertising."

Nat Wolfsohn, president, Eastern Mortgage Service Co. of Philadelphia, is still as strong for solicitors as he was when he wrote "A Good Solicitor Is Your Best Business Getter" in the February 15th issue of The Mortgage Banker. This time he writes:

"For getting new business we prefer solicitors and here is why:

"First, our men go only into those areas that are preferred by the companies we represent, thus eliminating a lot of lost motion in looking at and rejecting loans in undesirable sections. This eliminates ill feeling on the part of the applicants that invariably results when their loans are declined.

"Second, we find that builders and brokers prefer to discuss their mortgage problems on the job or in their offices so they will not lose any time.

"Third, many builders and brokers, after they make a sale, like to have our men contact the buyers at their homes, preferably in the evening, to discuss the best method of financing their purchase. Here again it would often be difficult for the borrower to take the time off to come into our office during the day. Moreover, our solicitors are often called upon to help close a sale that is waivering because of some financing problem.

(Continued next page, column 2)

The MORTGAGE BANKER

Published Semi-Monthly by the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

111 West Washington Street, Chicago

The Mortgage Banker is distributed free semi-monthly to members of the Mortgage Bankers Association of America. Publications may reproduce material appearing in the magazine only by permission of the Association. Opinions expressed in The Mortgage Banker are those of the authors or the persons quoted and are not necessarily those of the Association.

JULY 15, 1941

FHA SECONDARY MARKET

The secondary market among private financial institutions for FHA-insured mortgages continued to broaden in the first quarter of 1941, although the amount of transfers declined in face of a record volume of new mortgages originated.

The number of institutions purchasing FHA-insured mortgages increased from 3,642 to 3,734, FHA Administrator Ferguson said. Transfers for the quarter totaled $110,702,000, compared with $119,855,000 during the first quarter of last year, a decline of $9,153,000.

Analysis of the transfers by type of institution shows that this decline was accounted for almost entirely by Federal agencies, chiefly the Federal National Mortgage Association. Their purchases for the first quarter of this year declined $9,135,000 in comparison with the first quarter of 1940, practically balancing the decline in total transfers.

"These figures indicate that the secondary market for FHA-insured mortgages is still broadening in terms of the number of institutions participating," Mr. Ferguson said. "On the other hand, the originating institutions are more inclined today to hold these prime securities in their own investment portfolios."

Insurance companies were the most active purchasers during the first quarter, accounting for almost half the total with $52,041,000. State banks and trust companies were second with $14,137,000, national banks third with $13,199,000, and Federal agencies fourth with $12,343,000.

NEW BUSINESS

(Continued from page 6)

"Fourth, rejections are reduced to a minimum because our salesmen, through experience, know what the companies we represent will or will not accept and are able to tell the builder or broker very quickly what they think we can do with any loan. Further, the men can often work the loan out on a basis that would be acceptable to one of our companies, thus saving a loan that might otherwise have been rejected.

Helping Builders

"Fifth, we believe that many applications would be lost to other sources if these solicitors were not in constant contact with the builders and brokers, bringing to their attention the service we can give them and relieving them of the details necessary in obtaining the comprehensive information the FHA or the mortgagee might require.

"Sixth, the details covering FHA mortgages are so voluminous that we find the average builder or real estate broker does not have the facilities or experience necessary to handle these applications without the guidance of our solicitors who keep them advised of the various changes that take place from time to time. We usually prepare for the builder or real estate broker the conditional applications as well as the firm applications for the home buyer that are required by the FHA. This, in the long run, saves a lot of time as invariably those applications prepared by the builders and brokers themselves contain insufficient information or are incorrect and have to be rewritten. The solicitors also handle the filing of subdivision information forms with the FHA and assist the builder in complying with the FHA requirements on these subdivisions. This, needless to say, goes a long way in cementing the relationship between the builder and our office.

"Seventh, the builders, after their confidence has been gained by our solicitors, usually consult with them before purchasing ground for development as well as seeking their suggestions as to what type and price house to construct. This naturally gives us the first opportunity to finance the houses for both the builder and later on for the home buyer.

"Eighth, by reason of the personal contact with the mortgagors in arranging their loans, we have, over a period of time, developed a lot of good business from friends and relatives of these mortgagors who need financing for dwellings that they are about to build or buy.

"Ninth, competition is so keen today for mortgage applications that we feel that unless our clients are seen periodically by our solicitors, they would be lost to other sources.

"Tenth, our solicitors, while maintaining personal contact with builders, often secure good leads from a chance remark they make about other builders who are about to start a new development before it becomes generally known.

"Our experience has been that *most* applications that come into the office *unsolicited are not worthwhile working*. Solicitors are your best bet for getting new business these days."

Clifford T. Harvuot, of the mortgage loan department of Robert A. Cline, Inc., of Cincinnati, also thinks builders and architects are the best sources for new loans. His analysis is:

"Constant contact with building contractors and architects has very definitely proved to be the best single source for new business. The door is wide open the minute he finds you can give him real service. He is as much interested, if not more, in the proper financing of the home than his client. We find that many builders prefer to deal through one source only. However, in order to cash in on this course 100 per cent, it is necessary that you have enough connections to enable you to make all types of loans. You cannot do this unless you have included in your setup, adequate outlets for FHA mortgages, including the advancing of construction money.

Twelve Sources

"We are using twelve different ways of producing new business.

"DIRECT MAIL: We have tried this but so far it has proved the *least* productive.

"PUBLIC ACCOUNTANTS: Occasionally they have a refinancing problem laid in their laps and we have received a small amount of business from this source.

"REAL ESTATE OPERATORS: This type of lead has not proved very successful for two reasons. Those who do not want any commission for throwing the loan your way, just do not seem willing to bother with it. Those real estate men who do want a commission on the loan will have to go to someone else. So far at least, we have refused to pay any commissions to real estate op-

erators who do not have a legitimate mortgage loan department.

"ATTORNEYS: Many people go direct to their attorney in connection with any transaction where they sign their name. We have secured a certain amount of business through cooperation there.

Blow Your Own Horn

"VACANT LOT TRANSFERS: Watch the daily newspaper for vacant lot sales. Usually they can be spotted by the tax stamps listed. We do this on the assumption that, with very few exceptions, a man who buys a vacant lot is going to erect some kind of a building. We find, however, that we are often too late and this method has not produced very much business.

"PICK GOOD SECTIONS AND CANVASS: This procedure has produced a fair amount of business, but takes quite a bit of time. We suggest that you select a street where you feel sure loans will be acceptable to at least one of your companies. Spot-appraise the houses, then check the court house records for the mortgage story. Then call on your prospect, knowing what you have found from this story, if you feel that you can offer him something better. Many mortgages may be close to an expiration date or have been in force long enough to entitle the mortgagor to a lower interest rate. Maybe this method of procuring new business is not entirely ethical. What do you think? It will produce a certain amount, however.

"TOOT YOUR HORN: Tell everyone you know whenever you see them and everyone you meet wherever you go that you are in the mortgage loan business. I know of several very definite instances where this has produced results. But don't make a nuisance of yourself. There are *ways.*

"FULL COOPERATION WITH SALES AND MANAGEMENT DEPARTMENTS: We have an organization of some thirty-five people in which is embodied a complete sales and property management department. Cooperation with these departments has proved extremely helpful. Our salesmen are instructed, in any of their negotiations, to let the prospective buyer know we are in a position to finance the transaction. This often gives us the inside track and enables us to get ahead of the other fellow. If you have these departments in your organization, you should definitely not overlook this source.

"SATISFIED CUSTOMERS: A lucrative source of business, if the salesman has sold himself properly when making the customer's own loan. Don't overlook it.

"DODGE REPORTS: We take the most complete daily Dodge service. The cost is $105 per year. It is worth many times that amount in new business, in spite of the fact that quite often we are on the job too late. Here is a suggestion. In order to derive full benefits from these reports, one should attempt to contact the prospect the *day* the report comes in. One of my solicitors has successfully used the telephone and asked for an appointment when the report arrives.

"NEWSPAPER ADVERTISING: Newspaper advertising has brought us very definite results. It should under no circumstances be overlooked in your quest for new business.

One Method NOT Used

"BUILDERS AND ARCHITECTS: This method is by all odds the most productive source of procuring new business.

"I asked one of our solicitors the day to give me a resume showing from what sources he obtained his 1940 business. Here are his sources listed in the reverse order of their importance:

		Loans
1.	Various sources	12
2.	Dodge reports	10
3.	Newspaper advertising	13
4.	Satisfied customers	13
5.	Friendly tips	14
6.	Builders and architects	29
	Total	91

"There are undoubtedly other ways. Some I have listed are probably not worth bothering about. I refer particularly to direct mail advertising. I would not spend a nickel on it. I also feel that radio advertising is wasted money.

"Of course, there is *another* method I haven't mentioned. It is paying commissions to real estate operators, builders, architects, attorneys and others for bringing loans to you. We do *not* use this method.

"We are willing to pay a commission to any legitimate mortgage loan broker, but to *no one else*. We think this method of securing business is entirely unnecessary, unfair and will very definitely lead to trouble for all of us. What do you think?"

The opinion of Samuel N. McCain, Treasurer of the Pomeroy Organization, Inc., of Syracuse is:

"Several years ago we sent out a series of letters to property owners in a desirable residential section, but secured very little results. This was due to the fact that the mortgage moratorium law in New York State is still in effect, and there is very little refinancing. We do not anticipate there will be much refinancing until this moratorium is lifted.

"Syracuse is a city of about 200,000 people, and it is possible to keep in almost constant touch with practically all reputable builders. We do this through personal solicitation with builders and architects, contacting them as regularly as possible, preferably every week to ten days. We have been able to gain their confidence so that they are willing to disclose their prospective customers to us and give us a chance to plan their mortgage for them, even before the definite building contract is signed.

"We find that when a house is already started it is too late to do anything about the mortgage as the owner has, in nearly every case, made his mortgage arrangements before starting the house. We try to give as good service to the builders as possible, taking care of the inspections for them and endeavoring to see that they get their different advances on construction loans as promptly as possible. This has helped us in competition with local banks who are not so particular about the service which they give to builders.

Personal Contact Best

"We also get information from architects when they are drawing plans for home owners, and through them are frequently able to secure the mortgage. Also, having a large house department with a number of salesmen, we get very many tips from them as to people who are planning to build homes. This applies not only to prospects who our salesmen are able to sell, but also ones to whom they are working, and where we may not be able to make a sale.

"We still feel, however, that in a city the size of Syracuse, the most successful method of developing a mortgage business is by personal contact and the service which we give to the mortgagors in seeing that their loans are advanced promptly and closed satisfactorily."

The last word in this issue—and the last word in meetings for mortgage men—is about MBA's forthcoming Convention in New York October 1, 2 and 3. This Convention is going to be DIFFERENT, and better than ever.